

# Fiscal Note

*Fiscal Services Division*



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**SF 2364** – Environmental Testing Services Sales Tax Exemption (LSB 6234SV)  
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Fiscal Note Version – New

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## **Description**

**Senate File 2364** includes two separate divisions.

- **Division I** provides a sales tax exemption for certain environmental testing services. The Division is effective July 1, 2015.
- **Division II** establishes a new motorsports recreational vehicle (MRV) classification for purposes of motor vehicle regulation and driver licensing. Motorsports recreational vehicles are defined as a modified motor vehicles used to participate in motorsports competitions, consisting of a conversion unit mounted on a truck tractor or motor truck chassis, and can be a temporary or recreational dwelling. The Bill establishes an annual registration fee of \$400 for MRVs.

## **Assumptions**

### **Division I:**

- The North American Industrial Classification System (NAICS) codes for environmental testing laboratories and services and environmental consulting services were used to identify Iowa businesses with those codes.
- Businesses identified from the Iowa Workforce Development database were matched with a list of businesses remitting sales and use tax to the Iowa Department of Revenue (DoR). The DoR identified 58 businesses with taxable sales of \$17.9 million for FY 2013.
- Taxable sales growth is estimated at 3.8% in FY 2014, 3.8% in FY 2015, 4.3% in FY 2016, 3.9% in FY 2017, and 3.0% in FY 2018 and future fiscal years.
- The statewide average local option sales tax (LOST) rate is 0.87%.

### **Division II:**

- Currently these vehicles are required to pay a fee that is formula based. It is assumed that the fee change will be a reduction compared to formula method, but the specific reduction amount is unknown.

## **Fiscal Impact**

**Division I:** State sales and use tax revenue will be reduced by approximately \$1.2 million in FY 2016 and \$1.3 million by FY 2017 and subsequent fiscal years. Additionally, the LOST revenue will be reduced by approximately \$200,000 each fiscal year. The following table provides the estimated fiscal impact of the sales tax exemption and the impact on the State General Fund, the Secure an Advanced Vision for Education (SAVE) Fund, and the LOST.

**Sales Tax Exemption for Environmental Testing Services  
Estimated Change in Revenues (in Millions)**

	<u>Total State</u>	<u>General</u>		
	<u>Sales Tax</u>	<u>Fund</u>	<u>SAVE</u>	<u>LOST</u>
FY 2016	\$ -1.2	\$ -1.0	\$ -0.2	\$ -0.2
FY 2017	-1.3	-1.1	-0.2	-0.2
FY 2018	-1.3	-1.1	-0.2	-0.2
FY 2019	-1.3	-1.1	-0.2	-0.2

SAVE = Secure an Advanced Vision for Education

LOST = Local Option Sales Tax

Totals may not sum due to rounding.

**Division II:** The number of vehicles eligible for reclassification is unknown, and the Legislative Services Agency is currently unable to determine the fiscal impact of this change. Any fiscal impact will result in a decrease in Road Use Tax Fund revenue and will likely occur beginning in FY 2015.

**Sources**

Iowa Department of Revenue  
Iowa Department of Transportation  
LSA calculations

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/s/ Holly M. Lyons

May 14, 2014

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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